Wissen PUBLICATION GROUP

Journal of
Global Economics and Finance Studies

Review Article

Volume: 1 | Issue: 1 | November 2026 | Pages 01–13

Beyond the Five-Percent Growth Paradox: Economic Fragility, Policy Credibility and Investor Confidence in Indonesia

Loso Judijanto

IPOSS Jakarta, Indonesia

*Corresponding Author: Loso Judijanto, IPOSS Jakarta, Indonesia.

Submitted: 27 October 2026 **Accepted:** 02 November 2026 **Published:** 10 November 2026

Citation: Judijanto, L. (2026). Beyond the Five-Percent Growth Paradox: Economic Fragility, Policy Credibility and Investor Confidence in Indonesia. Journal of Global Economics and Finance Studies, 1(1), 1-13. DOI: doi.org/10.67927/JGlobalEconFin/2026(1)107.

Abstract

Indonesia's persistent growth near five percent presents a developmental paradox: macroeconomic stability can coexist with insecure employment, a vulnerable middle class, weak productive credit allocation, and fragile investor confidence. The 2026 sequence of capital-market scrutiny, a severe October equity correction, negative sovereign-rating outlooks, and currency depreciation intensifies the need to separate immediate triggers from structural causes. This qualitative literature review synthesizes 53 peer-reviewed articles published between 2020 and 2026, supported by dated institutional releases. A purposive, theory-informed and critically interpretive synthesis—not a systematic review—identifies six linked themes: job-quality divergence, household vulnerability, regulatory uncertainty, credit-allocation inefficiency, market-integrity concerns, and fiscal tradeoffs. The paper proposes an integrated mechanism through which unpredictable policy commitments may discourage irreversible investment while external portfolio shocks magnify financing pressures. Its findings do not demonstrate that domestic policy alone caused the 2026 market disruptions or that an undrawn loan commitment represents idle investable cash. The review also treats school feeding as a potentially valuable human-capital investment whose results and opportunity costs require independent evaluation. It recommends transparent beneficial-ownership disclosure, credible and coordinated regulation, outcome-based fiscal governance, employment-centered productivity reform, and improved small-business credit pathways. A sequenced institutional framework and research agenda specify measurable tests for these propositions. The central implication is that Indonesia's economic resilience depends on both credible financial institutions and the capacity to transform growth into widely shared, secure livelihoods.

Keywords: Indonesia, Economic Growth Paradox, Policy Credibility, Investor Confidence Middle-Class Vulnerability, Youth Unemployment, Capital-Market Integrity, Credit Allocation, Fiscal Governance, Qualitative Literature Review.

Introduction

Macroeconomic Stability and the Distributional Paradox

Indonesia has repeatedly demonstrated an ability to sustain approximately five percent annual economic growth while maintaining considerable resilience against external disturbances. The 2025 growth outcome of 5.11 percent illustrates this continuity, yet a stable national average says little about the distribution of opportunity, the quality of new employment, or the vulnerability of households whose incomes do not keep pace with expenditure needs.

The proposition examined here is therefore narrower and more testable than the claim that the economy is already in crisis: macroeconomic stability may coexist with deteriorating economic security for particular social groups. Comparative assessments of Indonesia's development record show both remarkable long-term gains and persistent shortcomings in structural transformation, governance, and productivity. Recent country analyses similarly warn that aggregate growth is not an adequate proxy for the condition of the labor market or the breadth of the middle class. These tensions demand an integrated interpretation rather than competing selections of favorable and unfavorable indicators [1-3].

In October 2026, the question became especially salient because financial-market events revealed a more immediate dimension of vulnerability. On October 15, MSCI announced a consultation concerning a possible move of its Indonesian indexes from emerging-market to standalone status, with a final decision expected by the end of June 2027. On October 16, the benchmark equity market experienced an exceptionally severe one-day decline, and the rupiah came under renewed pressure.

The shock is significant because index eligibility can alter the investment mandates and transaction behavior of global institutional portfolios. Nevertheless, a sharp equity correction does not establish a generalized banking crisis, nor does a weakening currency by itself demonstrate sovereign insolvency. The analytical task is to examine how market accessibility, information quality, and perceived policy commitment affect

financing conditions, and how those conditions interact with investment and employment [4-6].

Problem Statement and Competing Explanations

Two simplistic narratives dominate many discussions of economic stress. The first treats five-percent GDP growth, restrained inflation, and investment-grade credit ratings as sufficient proof that the economy is healthy. The second interprets weaker household finances and investor selling as conclusive proof of imminent collapse attributable entirely to domestic policymakers. Both are inadequate. An economy can produce output growth through capital-intensive activities that have weak employment multipliers, and it can suffer exchange-rate depreciation partly because of global interest-rate and risk-appetite shifts. Conversely, the existence of international shocks does not absolve domestic institutions from responsibility for opaque markets, unstable implementation, or inefficient resource allocation. A credible explanation must specify channels through which regulatory choices, banking incentives, fiscal commitments, and global financial conditions are transmitted to observed outcomes. These channels operate on different time horizons, making chronological discipline essential [7-9].

This article frames policy credibility as a me chanism linking real and financial vulnerabilities. When enterprises confront unpredictable compliance costs, future regulatory reversals, or opaque access to contracts, they may postpone irreversible expenditure despite access to credit lines. Financial institutions with acceptable capital ratios may consequently prefer relatively liquid or lower-risk assets rather than loans to enterprises with uncertain cash flows. Household insecurity further depresses demand for locally produced goods and discourages formal employment expansion. Financial-market controversy can add a risk premium to this already weak investment environment, feeding back into exchange rates and financing costs. These mechanisms are well established in comparative investment, banking, and sovereign-risk research, but their relative contribution in Indonesia cannot be quantified by a qualitative literature review alone. The review accordingly develops plausible causal propositions, evaluates counterevidence, and identifies the measurements required to test each proposition [5,10,11].

Research Contribution and Objectives

The distinctive contribution is a joined-up framework that treats household welfare, employment quality, productive credit allocation, fiscal program design, and equity-market accessibility as parts of one governance problem rather than independent topics. Country scholarship has separately examined fiscal choices, trade restrictions, informality, and the banking sector; global work has established links between uncertainty and investment as well as between sovereign risk and capital flows.

This article synthesizes those literatures in light of the October 2026 market event while resisting the temptation to infer causality from simultaneous movements. Its objectives are to explain the macro-micro divergence, evaluate mechanisms affecting investor confidence, assess the opportunity costs and prospective benefits of flagship spending, and derive reform priorities with realistic institutional owners and measurable indicators. The discussion also establishes why productive employment and a credible information environment should be treated as joint targets of economic policy [4,12,13].

Literature Review

Inclusive Growth, Structural Change and Labor-Market Ladders

Inclusive growth is more demanding than a rising aggregate production function. From the standpoint of households, prosperity depends on the availability of formal jobs, real wage improvements, affordable essential goods, access to protective institutions, and feasible transitions to more productive occupations. The job-ladder literature distinguishes formal wage employment from several tiers of informal wage work and own-account activity, highlighting the possibility that workers move into employment without moving toward economic security.

This distinction is especially important where measured unemployment is moderated by survival-oriented self-employment or unpaid family work. In Indonesia, research comparing labor-market structures with India has shown that substantial employment remains concentrated on the lower rungs of occupational hierarchies. The global value-chain literature also shows that productivity benefits from internationally integrated production need not generate a large share of total employment. Growth accounting must therefore be supplemented with job quality, security, and mobility indicators [12,14,15].

The presence of technology-enabled platform work complicates labor-market interpretation. Ride-hailing and delivery platforms can lower entry barriers and absorb displaced or underemployed workers, providing valuable income opportunities and services. Yet interviews with Indonesian gig workers have documented asymmetries in bargaining power, questions concerning net earnings after costs, weak social protection, and limited voice in algorithmically managed workplaces.

This evidence does not mean every platform job is inferior to every conventional job. It does mean that the number of people engaged in platform activity should not automatically be presented as evidence of improved job quality. A useful quality-adjusted employment dashboard would measure net hourly earnings, hours worked, earnings volatility, occupational safety, social insurance, and the probability of transitioning to better employment. Such an approach would reveal dimensions hidden within headline employment expansion [16-19].

Middle-Class Vulnerability, Social Protection and Demand

The middle class is best understood as a distributional category contingent on a specified welfare threshold, not as a homogeneous political or consumption bloc. Indonesian public debate sometimes describes a decline in the middle-class population as a nineteen-percent contraction, but a defensible scholarly analysis must distinguish an absolute percentage change in people from a change in percentage points of population share. Published estimates indicate approximately 57.33 million middle-class residents in 2019 and 47.85 million in 2024, with further contraction estimated for 2025 under related expenditure-based classifications.

These numbers describe reclassification across expenditure bands, not necessarily a one-to-one movement from middle class into official poverty. Still, movement toward more precarious consumption levels can affect durable-goods spending, precautionary savings, aspirations for education, and willingness to undertake entrepreneurial risk. Distributional monitoring should therefore include transitions between bands, debt service, and liquid buffers [2,3,20].

Social protection research makes clear that well-designed transfers can cushion poverty and household shocks, but coverage, targeting, delivery, and local economic conditions influence outcomes. Lessons from Indonesia's pandemic response are relevant because the immediate disappearance of earnings can affect workers not previously classified as poor. Flexible eligibility mechanisms, interoperable beneficiary records, and responsive local administration matter when insecurity spreads beyond established low-income categories. The policy objective should not be confined to protecting a static poverty headcount; it should also prevent temporary unemployment or health shocks from triggering persistent downward mobility.

Financial inclusion is related but not identical to financial resilience: owning an account neither guarantees adequate savings nor access to affordable productive credit. Research from eastern Indonesia and Southeast Asia suggests that income, geography, schooling, trust, and institutional access shape who benefits from financial services [20-23].

Indonesia-specific causal evidence complicates the design of social protection. Using earlier Indonesian unconditional cash-transfer programs and longitudinal data, Pritadrajati (2023) finds relatively small reductions in employment and stronger effects on formal work under more tightly targeted eligibility arrangements. The result does not justify withdrawing safety nets; instead, it underscores the importance of withdrawal rules that do not penalize formalization, earnings progression, or the transition from assistance to work. These historical estimates should not be extrapolated mechanically to post-2025 programs, whose design and beneficiaries differ [21,24].

Policy Credibility, Regulation and the Investment Option to Wait

Investment in equipment, formal facilities, skills, and supplier networks often involves costs that cannot be recovered quickly when demand collapses or rules change. Under such conditions, uncertainty increases the value of waiting for additional information. Comparative firm-level studies document associations between economic or political uncertainty and reduced capital expenditure, though effects differ across countries, sectors, and forms of investment. Some firms redirect resources toward flexible working capital or innovation rather than simply cutting all expenditure [25].

The important theoretical implication is that policymakers cannot assume the existence of approved borrowing facilities will automatically produce productive investment. Stable rules, predictable dispute resolution, coordination among agencies, and credible timelines for implementation may be necessary before borrowers commit. This interpretation is consistent with real-options reasoning while acknowledging that firms can also delay because of weak demand, leverage, or poor expected profitability rather than regulation [10,11,24-27].

A cross-country investment study offers an important check on explanations emphasizing domestic uncertainty alone. Jardet, Jude and Chinn (2023) find that global uncertainty is often a more consistent predictor of foreign direct investment than host-country uncertainty, although the magnitude varies across economies and is amplified by financial openness. For Indonesia, this means that weak foreign investment or portfolio outflows cannot be attributed entirely to domestic regulatory choices without separating global push factors from domestic pull factors. A credible diagnosis should accordingly distinguish investment-type, sector, timing, and the global risk environment [9,28].

Investor confidence also depends on market microstructure and the institutions controlling financial information. Equity investors need to distinguish genuinely tradeable shares from closely held stakes, identify controlling interests, and evaluate whether reported prices arise from sufficiently competitive trading. Opaque ownership chains or suspicions of coordinated transactions can weaken price discovery even if listed firms appear profitable. Research on institutional investors suggests that uncertainty interacts with the host country's institutional conditions and market volatility, while emerging-market studies show that domestic credit and currency factors can matter for sovereign risk pricing.

Consequently, market-accessibility reform should not be interpreted as public relations directed at one index provider. It involves verifiable beneficial-ownership data, independent enforcement, timely disclosure, and predictable application of the same rules to politically and commercially connected participants. These standards improve domestic market quality regardless of any eventual MSCI classification [6,13,29].

Credit Supply, Credit Demand and Productive Allocation

A banking system may display ample liquidity, capital, and nonperforming-loan coverage without supplying the type of finance most needed for structural transformation. The distinction between credit supply and credit demand is critical. Banks may decline risky enterprise applications because of information asymmetries or collateral constraints; businesses may also choose not to draw already approved facilities because expected sales and investment returns are weak. A high stock of undisbursed credit therefore measures unused commitments, not necessarily funds withheld by banks or deliberately deposited into securities.

Indonesian banking research points to persistent challenges in channeling capital toward productivity-enhancing micro, small, and medium enterprises. International evidence further suggests that excessive expansion of lending without effective screening may worsen capital misallocation, while public recapitalization or guarantees can favor either productive firms or weak incumbents depending on design.

The practical implication is that financial deepening should be evaluated by what borrowers accomplish, not simply by the volume of disbursements. A subsidized loan that repeatedly rolls over short-term trading inventory may preserve livelihoods without increasing technological capability or creating secure employment. More developmental finance would help viable smaller enterprises acquire equipment, meet procurement standards, maintain verifiable financial accounts, and graduate toward unsubsidized commercial credit. This requires complementary business development services, credible credit information, transparent eligibility rules, and reliable downstream demand. Research on digital financial literacy in Indonesia demonstrates that access and understanding vary with socioeconomic characteristics; strengthening the intermediary ecosystem is therefore as important as adjusting the price of credit. Nevertheless, no single loan program can compensate for weak sectoral demand or shifting trade regulations [5,30,31].

Fiscal Space, State-Led Development and Policy Evaluation

Large flagship programs should be judged against clear counterfactuals rather than accepted or rejected based on their political branding. The Free Nutritious Meals program, known as Makan Bergizi Gratis or MBG, received a 2026 budget allocation of IDR 335 trillion. Its policy rationale includes child nutrition, schooling, household support, and local agricultural demand. Evidence from an earlier Indonesian school-feeding program reports gains in dietary diversity, hygiene practices, and the learning environment, while finding weaker or statistically insignificant changes in some nutritional-status outcomes.

Such mixed evidence cautions against two extreme statements: that school meals have no development value, or that any scale of implementation is necessarily cost-effective. The appropriate evaluation compares nutritional and educational outcomes with administrative costs, leakage risks, alternative uses of funds, and regional variation in baseline need [4,32,33].

International evidence on school feeding further reinforces the need for outcomes-based comparison rather than a categorical position on universal versus targeted delivery. In a 2025 scoping review of 44 studies across 13 countries, Locke document heterogeneous health and well-being outcomes and important differences in program design and reported measures [34].

Those patterns argue for explicitly defined beneficiaries, implementation fidelity, transparent unit costs, and long-term monitoring when evaluating Indonesia's MBG program. Evidence from other countries offers plausible mechanisms, but Indonesia-specific causal estimates remain necessary to assess the opportunity cost of any particular spending level [32,34].

The fiscal literature also cautions against treating every form of spending as an equivalent stimulus. Multipliers depend on economic slack, financing conditions, import leakage, local capacity, and the persistence of interventions. State-led initiatives can create useful infrastructure, risk-sharing arrangements, and new markets, but they can also displace private providers or absorb fiscal space without durable productivity effects. Credible fiscal rules and exceptional-response mechanisms may stabilize borrowing conditions when designed transparently. Empirical work on sovereign borrowing and consolidation highlights the significance of institutional credibility as well as economic fundamentals, and comparative research suggests that public spending effectiveness is sensitive to governance quality.

In Indonesia, centralized flagship commitments need to be assessed jointly with tax effort, regional transfers, disaster-response capacity, and the financing obligations of public enterprises [35-39].

Global Financial Cycles and Domestic Amplification

External pressures remain a genuine alternative explanation for market distress. Changes in US interest rates, worldwide risk aversion, geopolitical disruptions, commodity prices, and export demand can alter currency and portfolio flows even where domestic policy is comparatively stable. Research on emerging-market capital flows identifies both global financial conditions and domestic growth as relevant drivers of volatility.

Studies of local-currency sovereign debt likewise show that currency risk and credit risk can interact, creating reinforcing pressures through risk premiums and portfolio valuation. Domestic institutions affect how severely these shocks are transmitted: coherent communication and credible fiscal and monetary frameworks can reduce uncertainty, whereas opacity can increase it. It would therefore be analytically incorrect to label the international environment a mere distraction or, conversely, to describe all exchange-rate stress as imported. The review treats external shocks and domestic amplification as potentially complementary processes requiring separate indicators [9,40-43].

Method: Qualitative Literature Review

Review Orientation and Literature Corpus

This study uses a critical qualitative literature review, not a systematic literature review, meta-analysis, or econometric identification design. The purpose is interpretive integration across research traditions that often measure different outcomes and use different observation periods. Peer-reviewed journal publications dated 2020 through October 26, 2026 constitute the principal scholarly corpus.

Highly relevant Indonesian country surveys are considered alongside studies of investment uncertainty, labor informality, fiscal credibility, bank lending, and financial contagion. Official statistical and regulatory publications supplement the scholarly evidence for dating and defining country indicators; these primary materials do not replace peer-reviewed articles in the journal reference count. A QLR is appropriate because the question concerns interacting mechanisms, institutional context, and the compatibility of partially competing explanations rather than a single treatment effect that can be pooled [1,43,44].

Conceptual Sampling and Eligibility Judgments

Literature selection proceeds purposively from the research questions. Studies are privileged when they offer direct Indonesian evidence or a clear analytical mechanism that could travel to Indonesian circumstances, while publications with only superficial topical overlap are excluded from the core synthesis. The 2020–2026 date window enhances policy relevance without pretending that the theories themselves originated recently. Exclusion decisions emphasize non-peer-reviewed opinion, duplicate reporting of the same evidence, unsupported causal claims, and papers whose setting is too distant for meaningful comparison.

Because this is a narrative-critical qualitative design, no PRISMA flowchart, pooled effect size, exhaustive database claim, or artificial search yield is reported. Selection is transparent in terms of source type, conceptual fit, and limits of inference, but the corpus is not portrayed as statistically representative of all publications [15,43,44].

Coding, Theme Development and Triangulation

The synthesis follows an iterative process of familiarization, provisional coding, comparison, theme refinement, and narrative interpretation. The initial codes distinguish aggregate performance, occupational quality, household buffers, expected investment returns, policy predictability, lending constraints, market accessibility, fiscal opportunity costs, and external shocks. Coding then records whether a source supplies descriptive measurement, a theory, a cross-country empirical relationship, a direct Indonesian estimate, or a policy recommendation.

This evidence-role classification prevents a conceptual hypothesis from being represented as a locally estimated effect. Reflexive thematic analysis is useful because policy debates contain value

judgments and competing vocabularies; coding should make those choices explicit rather than conceal them behind an appearance of mechanistic objectivity. Contradictory findings are retained and compared rather than quietly discarded [25,43,44].

Date Control, Validity and Limitations

An October 26, 2026 cutoff is imposed on contemporary policy interpretation. The October 15 MSCI consultation is treated as a proposal, not a completed reclassification; the June 2027 decision deadline is a future uncertainty, not an observed downgrade. Similarly, a negative credit-rating outlook is separated from an actual rating-notch reduction. Exchange-rate values refer to a specified market or reference measure and observation date; youth unemployment measures are disaggregated by age; and the middle-class trend is reported under stated expenditure definitions.

These distinctions reduce false precision. The principal limitations remain important: international empirical coefficients cannot be automatically transferred to Indonesia; information may change after the cutoff; a literature review cannot identify the causal share of domestic policy in a market selloff; and some evidence is based on periods preceding the current administration [3,4,6].

Results: Thematic Findings

Stable Headline Growth Coexists with Weaker Employment Transformation

The literature's first recurring finding is that Indonesia's apparent macroeconomic steadiness has not ensured comparably strong upgrading of employment. Analyses of the post-pandemic labor market describe greater reliance on informal activities and lower-productivity occupations, while recent country work points to limited growth in full-time employment relative to part-time work. In the 2025 labor-force picture, the national open unemployment rate was 4.85 percent, but the rates reported for the 15–19 and 20–24 age groups were substantially higher. These indicators illuminate different things: the overall rate describes labor-force status, whereas sector, hours, insurance, and net earnings describe economic security.

A graduate working as a ride-hailing driver can be employed according to official definitions while still facing a severe qualification mismatch. This is a reason to expand measurement, not to reject national statistical methods [3,4,12].

Figure 1 compares open unemployment across two nonoverlapping youth age bands against the national rate in 2025. The contrast is striking: unemployment was 23.34% at ages 15–19 and 14.35% at ages 20–24, compared with 4.85% across all ages. These denominators measure unemployment rather than graduate mismatch or job quality, which must be evaluated separately using wage, working-hours, and social-insurance data [12,19].

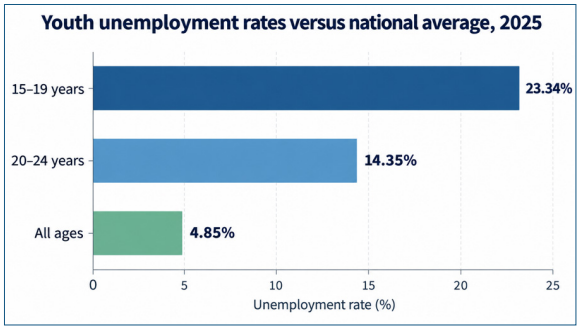


Figure 1: Open unemployment rates for ages 15–19 and 20–24 versus the national rate, Indonesia, 2025. Source: BPS 2025 labor-force estimates. Age groups have different labor-force denominators; percentages are descriptive.

The chart illustrates why a generalized claim about a single youth unemployment rate needs an explicit age definition. The 15–19 category has a substantially different rate from the 20–24 category, while the national figure uses a wider working-age denominator. It is equally important that unemployment excludes some forms of low-hours employment and underemployment; consequently, an assessment of quality jobs needs wages, hours, contracts, and social-insurance measures in addition to the rates charted here.

Manufacturing matters to this story because industrial activities can provide productivity gains, training ladders, and relatively predictable wage employment. However, the extent of employment creation depends on the industry mix.

Capital-intensive downstream processing may raise exports and aggregate value added without absorbing labor at the same rate as garments, food processing, or labor-intensive manufacturing.

Comparative evidence on global value chains suggests that productivity-enhancing linkages alone do not guarantee broad employment participation. Indonesian studies examining minimum wage effects also caution against attributing weak manufacturing hiring to wages without regard to demand, firm size, and institutions. A serious employment strategy should combine investment facilitation with supplier development, export readiness, training pipelines, and performance measures based on durable jobs. Merely celebrating gross investment or export figures risks obscuring the jobs that were not created [8,14,45].

Middle-Class Erosion Reveals Hidden Household Vulnerabilities

A second theme concerns the fragility of consumption-based socioeconomic categories. Widely cited Indonesian figures show a fall in the estimated middle-class count from 57.33 million in 2019 to 47.85 million in 2024, with a further estimate near 46.7 million in 2025. These are important warning signals, but interpretation requires avoiding the false inference that every person leaving this statistical band entered poverty. Changes in employment, demographic composition, cost pressures, and consumption thresholds may produce different transitions.

Furthermore, aggregate savings balances can increase even while liquid balances among vulnerable households fall, since deposits are unequally distributed. Because household-level savings distributions were not consistently available for the entire period examined, this review does not assert a particular percentage collapse in low-income accounts. Instead, it identifies the need to measure liquid buffers, consumption volatility, and debt stress alongside class shares [2,20,23].

Figure 2 presents the estimated middle-class population in 2019, 2024, and 2025 in millions rather than as an ambiguous percentage of the total population. The respective reported figures are 57.33 million, 47.85 million, and approximately 46.70 million, suggesting a considerable contraction over the interval. Interpretation nevertheless depends on consistent real-expenditure thresholds, survey comparability, and household transitions; movement out of this band is not equivalent to entry into official poverty [2,3].

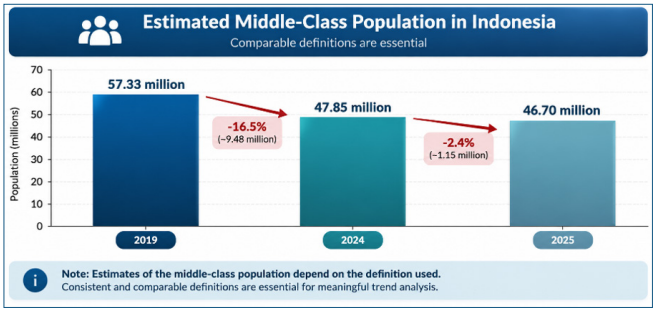


Figure 2: Reported estimates of Indonesia's middle-class population in 2019, 2024, and 2025 (millions). Source: BPS estimates summarized in contemporary publications. Interpretation requires consistent welfare definitions.

The downward movement suggests a potentially material loss of economic security in the population segment conventionally identified as middle class. It does not show that every individual previously in the category became poor, and it must not be interpreted as a 19-percent middle-class population share without a denominator. A full welfare analysis would follow individuals across classes and distinguish nominal thresholds, real expenditure trends, and survey comparability.

Social-policy evidence indicates that adverse shocks can have lingering consequences even after GDP recovers. Indonesian research on pandemic-era protection programs documented the importance of transfers in containing poverty and exposed difficulties in identifying those newly at risk. More recent financial-inclusion studies underscore that account access is a weaker achievement than secure and affordable use of financial services.

This creates a policy challenge: safety nets designed only for the previously poor may miss salaried or informal middle-class households whose employment has become unstable. A response centered solely on fiscal austerity could therefore aggravate demand weakness, especially if health, education, transport, and localized transfers are reduced indiscriminately. Targeting should be improved through verified need and outcomes, while preserving mechanisms for rapid temporary assistance. Structural recovery must ultimately reduce households' need for repeated rescue [20,21,24,46].

Policy Unpredictability Changes Investment Timing

The third theme is the widespread sensitivity of corporate decisions to uncertainty about future conditions. Cross-country empirical research indicates that firms often postpone irreversible investment when expectations become unstable, although the magnitude and direction vary by industry and political context. The evidence does not justify claiming that every currently unused Indonesian credit facility is a direct consequence of ministerial inconsistency.

An enterprise might rationally retain a committed line as liquidity insurance, defer capital purchases because orders are weak, or anticipate more attractive financing terms. Still, regulatory instability and uncertain procurement practices are plausible additional reasons to remain inactive. Indonesian policy surveys repeatedly identify institutional capacity, fragmented decision-making, and complicated trade or licensing rules as constraints on durable private investment. These observations suggest that clarity and credible enforcement are economic infrastructure, not merely administrative preferences [8,15,25,26].

A related finding is that the effects of uncertainty differ across types of capital spending. Some studies document reductions in conventional fixed assets while finding that firms preserve more flexible working-capital choices or shift the composition of innovation investment. Venture financing can be staged so that later commitments depend on resolution of policy risks. Environmental innovation may be particularly sensitive because payback periods are long and policy reversal is costly.

These mechanisms caution against interpreting a temporary rise in money supply or a subsidized loan rate as sufficient for investment recovery. Policy predictability must be linked with market access, contract integrity, long-term infrastructure, labor capability, and reliable information. Evidence of heterogeneity also weakens sweeping assertions that any particular government program inevitably depresses all private investment [10,29,47,48].

Banking Resilience Masks a Developmental Credit-Allocation Problem

The fourth theme is a mismatch between bank soundness and the financing needs of productive enterprises. Indonesia's banking sector can remain stable while private credit relative to GDP is modest, small-firm lending remains costly, and graduation from subsidized credit to ordinary bank finance is limited. Research emphasizes that enterprise screening, financial records, collateral, and commercial viability shape outcomes.

The frequently cited undisbursed-credit figure of IDR 2,576 trillion corresponds to May 2026, with reported reduction to approximately IDR 2,490 trillion in June. This stock represents approved commitments not yet drawn, and does not on its own establish either the reasons for nonuse or the precise portfolio into which funds were invested. Such diagnostic distinctions matter because misidentifying a demand problem as only a supply problem can lead to unsuccessful liquidity injections and excessive risk-taking [5,30,31].

The literature suggests a constructive alternative to treating loan growth as the sole performance indicator. A productive-finance agenda would assess the share of credit reaching viable expanding firms, capital formation per borrower, employee formalization, revenue durability, and transitions into nonsubsidized credit. Research on financial inclusion finds that geography, income, educational attainment, and trust remain barriers to formal participation.

At the bank level, supervisory incentives should not reward mechanical lending targets that encourage unproductive rollover or related-party concentration. At the business level, improving financial statements, technical capabilities, collateral registries, and supply contracts can reduce risk more effectively than broad interest subsidies. Such reforms take time but potentially raise productivity and improve job quality simultaneously [5,20,23,31].

The Market-Accessibility Shock Has Institutional Rather Than Purely Cyclical Roots

The fifth theme connects recent financial stress to investability, disclosure, and institutional trust. MSCI's 2026 communications identify concerns about transparent shareholding structures, reliable free-float estimation, and potential coordinated trading. The October proposal for standalone classification substantially

raises the stakes of reform because global index inclusion shapes benchmark-relative investment mandates. However, the correct chronological statement is that the review is pending as of October 26, not that Indonesia has already lost its emerging-market designation.

Indonesia's January through October market difficulties should also not be attributed to the October announcement alone; investors have responded to a sequence of transparency concerns and wider economic developments. Effective compliance must become observable in datasets, investigations, and market outcomes rather than confined to regulatory press conferences [4,13,29].

Research on institutional investment and exchange-rate risk provides an analytical explanation for the magnitude of these reactions. Lower market transparency can increase uncertainty about what an index security genuinely represents, while heightened sovereign or currency risk raises the cost of carrying local assets for foreign investors. In emerging markets, global risk appetite and domestic institutional factors jointly influence the response, making price declines potentially nonlinear.

The implication for Indonesia is not that domestic investors are irrelevant or that all foreign exits represent irrational panic. Rather, confidence must be rebuilt by ensuring that investors can verify ownership information, obtain fair settlement access, assess governance risks, and expect meaningful sanctions for wrongdoing. This would improve financial-market resilience regardless of the ultimate index-provider decision [6,9,29,42].

Fiscal Prioritization Produces Both Trade-Offs and Long-Run Opportunities

The sixth theme is a tension between immediate fiscal constraints and long-run social investment. The government's 2026 MBG appropriation of IDR 335 trillion is undeniably large enough to require transparent prioritization. Yet available evidence on earlier school meals shows improvements in certain nutritional and behavioral outcomes, even when broader nutritional indicators did not respond significantly. A balanced reading therefore rejects both unsupported declarations of guaranteed benefits and allegations that the entire allocation is economically useless.

Large programs may generate demand for local food producers, but those linkages depend on procurement design, food safety, logistics, local competition, and price effects. If centralized delivery displaces efficient small providers or generates avoidable waste, the potential multiplier will be diminished. Program evaluation must compare implementation options, not merely distinguish expansion from abolition [5,32,33].

Fiscal credibility also depends on how expenditures are financed and governed. A government can sustain an investment-grade rating while facing a negative outlook, particularly when revenue performance, predictability, and contingent liabilities become concerns. Ratings should be described as assessments of future credit risk rather than direct measurements of household welfare. Emerging-market research indicates that credible fiscal institutions can support sovereign borrowing capacity, while discretionary measures lacking clear legal or budgetary anchors can undermine confidence. Indonesia's fiscal challenge is thus multidimensional: raise revenue efficiency, report all material obligations consistently, assess state-company and off-budget exposures, preserve essential buffers, and redirect ineffective spending toward interventions with verified outcomes. An indiscriminate spending freeze could damage employment, local services, or future human capital and should not be represented as a costless solution [33,37-39].

Discussion and Analysis

An Integrated Account of the Growth-Confidence Gap

The preceding themes support a central synthesis: a country may achieve respectable GDP growth while its capacity to generate secure income, productive investment, and trusted capital-market instruments weakens. These variables occupy different layers of the economy. GDP measures production during a period, job quality measures the household-facing terms of participation, the stock of undrawn credit records an available financing option, and market prices incorporate expectations about future risk. Their movement in different directions is not a statistical contradiction.

It can nonetheless represent an economically consequential imbalance when output is concentrated in capital-intensive sectors and weak real-income prospects discourage the investment needed for broader employment. Figure 3 maps the proposed interactions as a conceptual mechanism, not an estimated structural equation model. The direction and strength of individual arrows remain empirical questions [1,5,12,49].

Figure 3 represents the study's proposed pathways from policy credibility and market governance through financing conditions to investment, employment, and household resilience. The diagram connects three domains often analyzed separately: capital-market trust, real-sector productivity, and distributional welfare. Its arrows represent hypotheses derived from the reviewed literature and should not be interpreted as quantified causal effects [5,10,12].

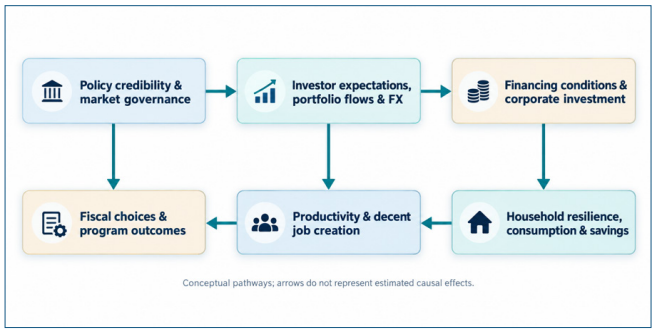


Figure 3: Proposed conceptual pathways linking policy credibility, investor expectations, corporate investment, job quality, and household resilience. Source: author's qualitative synthesis; arrows are theoretical, not estimated.

The diagram's arrows identify theoretical channels rather than statistically estimated relationships. Regulatory and financial credibility can shape financing conditions; investment then influences the quantity and quality of work; employment affects household consumption and financial buffers; and consumer demand can feed into the future profitability of firms. External interest rates, sectoral specialization, and independent macroeconomic institutions can alter these links, making empirical testing necessary before causal policy claims can be assigned magnitudes.

In this account, credibility operates across multiple institutions. Stable, enforced market rules lower transaction uncertainty; sound budget reporting helps investors price public-sector obligations; and consistent government coordination allows firms to calculate

expected returns. Households observing accessible, better-paid work are more likely to sustain discretionary consumption and repay debt. The reverse mechanisms can also occur, but there is no inevitability about their speed or magnitude. International studies suggest that political uncertainty sometimes changes investment composition instead of aggregate investment, while financial-market stress can be driven by exogenous risk repricing. Hence the term 'ticking time bomb' is best treated as a conditional risk metaphor: fragilities may accumulate and reinforce one another if uncorrected, but a crisis is not predetermined [9-11].

Distinguishing Domestic Amplification from Global Shocks

Attributing the October market selloff exclusively to domestic political choices would be methodologically unsound. Global interest-rate expectations, geopolitical tensions, shifts in the dollar, energy prices, and benchmark-related trading can all contribute. However, treating the episode as merely a global shock is equally incomplete when the index provider explicitly identifies local shareholding transparency and trading concerns.

A more persuasive conceptual decomposition separates an initiating external or market-specific trigger, the domestic institutional conditions that determine its salience, and the balance-sheet channels through which prices affect the real economy. The same global shock can have different national consequences because reserve buffers, institutional trust, currency mismatches, and investor composition differ. Research on emerging debt and exchange markets substantiates this heterogeneity [6,11,28,40,41].

Figure 4 is interpreted as a chronology of distinguishable decisions and market movements, not as a continuous causal sequence. While the October 15 consultation preceded the October 16 decline, market volatility also depends on liquidity, prior valuations, risk appetite, and other contemporaneous information. Disentangling these contributors would require an event-study counterfactual with intraday data and appropriate comparator markets [6,9].

Figure 4 provides a dated sequence of MSCI-related developments, separating January investability concerns, the April reform response, the June status review, and the October consultation. It also places the October 16 equity decline after the consultation without claiming that the announcement explains every component of the price movement. The June 2027 milestone is a pending decision date, not an observed classification outcome [4,9].

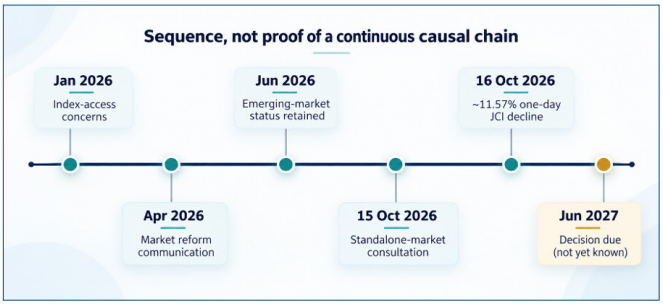


Figure 4: Selected milestones in MSCI's 2026 indonesia market-accessibility reviews and the prospective june 2027 decision. Source: MSCI institutional releases and dated market data; chronological placement does not prove causality.

The chronology distinguishes January index-investability concerns, later communications and reform responses, a June status decision, and the more severe October consultation on possible standalone classification. The one-day equity-market decline is displayed as temporally following the October proposal, but a date sequence alone does not identify how much of the change was caused by the proposal rather than concurrent expectations or global portfolio conditions. The end-June-2027 item is a future decision point, not a forecast result.

Reframing School Meals as an Evaluable Investment Portfolio

The MBG debate illustrates the hazards of binary reasoning. Child nutrition is an economically important public objective, and deficiencies can damage schooling, health, and lifetime productivity. At the same time, universal or weakly differentiated provision may have lower marginal benefits than prioritizing children and locations with higher nutritional risk. Procurement can either generate local multipliers through farmers and small enterprises or concentrate rents in a limited supplier network.

The appropriate strategy is a staged portfolio with nutrition targets, transparent unit costs, verified beneficiary data, independent food-safety inspections, and publishable learning and anthropometric outcomes. Budget reallocations should depend on measured benefit per rupiah and alternative spending needs, not on labeling the intervention as popular or unpopular. The earlier ProGAS evidence offers hypotheses and implementation lessons, not a guaranteed MBG impact estimate [4,32,35].

Rigorous evaluation would compare staggered rollout areas or other ethically suitable counterfactual designs, controlling for socioeconomic baseline conditions, school access, and preexisting dietary patterns. Indicators should capture both immediate outputs and medium-run outcomes: meal delivery, micronutrient adequacy, attendance, local supplier participation, price effects, and learning progression. Public dashboards must permit comparisons by geography and service provider, and complaints must have credible resolution pathways.

If particular delivery formats are expensive or unsafe, procurement rules and unit design should change promptly without dismantling all nutritional assistance. This is compatible with fiscal consolidation through better efficiency and a medium-term growth strategy through human capital. Conversely, refusing outcome audits because a program has a socially compelling stated purpose would weaken credibility and waste the opportunity to improve its developmental return [32-34,50].

Converting Unused Credit into Productive Capacity

Reducing the stock of undisbursed facilities is not a policy objective in isolation. Firms may prudently maintain undrawn credit as working-capital insurance, and forcing disbursement would simply transform an option into debt without improving expected sales. Policymakers should instead identify the relative contributions of weak credit demand, high borrowing costs, firm-level risk, loan conditions, and regulatory uncertainty.

A joint survey of lenders and borrowers could distinguish unused corporate facilities from SME credit constraints and compare decisions by sector and region. Bank Indonesia can facilitate a stable monetary and liquidity environment, but credit allocation also requires OJK supervision, commercial lending capability, investment permits, and enterprise-level demand. Figure 5 accordingly treats finance as one component of an implementation matrix rather than a stand-alone macroeconomic lever [5,10,30,38].

Figure 5 converts the review's governance and growth recommendations into a sequenced implementation matrix with identifiable leads. Immediate priorities emphasize capital-market transparency, fiscal reporting, and youth-labor statistics; the second phase emphasizes cross-agency coordination, nutrition-program evaluation, and SME credit diagnostics. The longer-term phase connects industrial productivity, apprenticeships, and enterprise financing, thereby pairing institutional accountability with measurable real-economy outcomes [4,5].

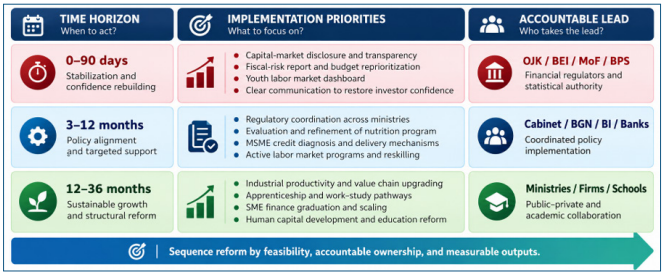


Figure 5: Proposed policy implementation horizons, priorities, and accountable institutions. Source: Author's synthesis of the reviewed studies; actions are recommendations rather than announced government commitments.

The matrix reveals why capital-market rehabilitation is a necessary but insufficient response. The first horizon targets observable disclosure and independent audit outputs; the medium horizon addresses rules and bottlenecks that impede productive commitments; and the longer horizon emphasizes employment capabilities and finance graduation. Indicators should be publicly reported, while implementing agencies should retain responsibility for outcomes rather than substituting public announcements for enforcement.

For viable small firms, the most credible intervention combines access to finance with market connectivity. Programs could finance certified machinery, shared cold-chain logistics, traceable food-processing capacity, or equipment required for export quality standards, provided enterprise selection is transparent and performance is verified. Public credit support should be linked to completion milestones and productive outcomes, with ex ante limits on guarantees and related-party exposure. Banks need regulatory room to use high-quality transaction data, while borrowers need technical assistance to produce reliable accounts. International evidence warns that rapid credit expansion can worsen capital misallocation when selection and monitoring deteriorate. Therefore, the test of success should be greater productivity and durable formal employment per unit of public risk assumed, not headline loan growth alone [20,31,46].

Capital-Market Integrity Before Index-Status Recovery

The most urgent near-term financial governance priority is to demonstrate that investors can rely on transparent and consistently enforced rules. OJK, the Indonesia Stock Exchange, and the central securities depository should publish a sequenced implementation plan for beneficial-ownership disclosure, concentrated-shareholding identification, and verification of free float. Compliance should be independently audited, with results accessible in standardized machine-readable formats. Investigations of suspected coordinated trading require due process and visible consequences where misconduct is established.

A plan designed solely to satisfy a deadline can fail if data remain inaccessible or sanctions are selectively applied. The June 2027 MSCI decision should be treated as an external review checkpoint; reform itself is a permanent public good for Indonesian savings mobilization and capital formation [4,13,29].

Greater disclosure can produce short-term inconvenience for controlling shareholders and firms accustomed to opaque arrangements. That cost should be weighed against more credible prices, lower information asymmetry, and potentially broader investor participation. Benchmark eligibility is not the same thing as fundamental competitiveness; a firm could remain profitable even if its stock is excluded from an index, while market-wide liquidity could still suffer. Policymakers should therefore avoid promising that a particular compliance announcement will automatically reverse price declines or prevent all capital outflow.

The strongest message is verifiable institutional change. Cross-country studies on foreign investment and sovereign risk support a careful distinction between reforms that can affect domestic risk premiums and global conditions that remain outside national control [6,29,42].

The Proper Division of Macroeconomic Responsibilities

Bank Indonesia's mandate requires balancing inflation, exchange-rate stability, and the monetary conditions needed for orderly economic activity. The temptation to defend an arbitrary exchange-rate threshold at all costs should be resisted: excessive tightening can depress credit and employment, while an inadequately credible stance may accelerate depreciation and raise imported inflation. Policy should instead consider market functioning, expectations, reserve adequacy, monetary transmission, and exchange-rate volatility.

Government bond yields reflect several components, including global term premiums, currency risk, domestic inflation expectations, and sovereign risk; they should not be engineered mechanically to compete with US yields. Coordination with the Ministry of Finance is necessary, but fiscal financing arrangements and public commentary should preserve the credibility of operational monetary decisions [6,40,51].

The Ministry of Finance has a different but complementary task: publish consistent fiscal accounts, stress-test medium-term commitments, communicate spending trade-offs, and improve revenue administration without imposing unpredictable compliance shocks. Changes in tax enforcement, administrative requirements, or procurement should be phased with credible transition provisions and accessible taxpayer guidance.

Local governments must have sufficient predictability in transfers to maintain essential services and implement national programs responsibly. Indonesian fiscal decentralization research underscores that changes to intergovernmental financial architecture carry real incentives and capacity implications. In a volatile financial environment, the quality of fiscal disclosure can matter almost as much as a small short-term reduction in headline spending because investors assess sustainability over several years [33,39,50].

A Quality-of-Growth Dashboard and Policy Thresholds

The reviewed evidence supports replacing one-dimensional growth celebration with a dashboard of quantity, quality, and resilience. A first pillar would retain GDP growth and inflation but add median real earnings, formal full-time employment, young-

worker unemployment by narrow age band, underemployment, and transitions among poverty and middle-class groups. A second would measure business investment realization, credit utilization by sector, SME graduation into commercial lending, and manufacturing employment intensity.

A third would track fiscal commitments, contingent liabilities, budget execution, and independently evaluated flagship-program outcomes. A fourth would monitor beneficial-ownership coverage, free-float discrepancies, enforcement disposition, investment flows, and market liquidity. Each metric should be released with definitions, revision histories, geographic disaggregation where feasible, and appropriately stated uncertainty [2,5,12].

This proposal does not presume that every indicator must improve simultaneously. More productive automation may raise output while reducing particular jobs, and tighter disclosure requirements may temporarily lower the number of qualifying listed securities. The framework instead demands that officials explain trade-offs and demonstrate that corrective policies are improving their intended outcomes without creating excessive collateral damage. A public scorecard is credible only if weak readings are published as consistently as strong ones.

Independent statistical institutions, market regulators, universities, and civil society can improve scrutiny without needing to agree on a single political account of the economy. In that sense, the data-reality divide is addressed not by choosing lived experience over statistics but by selecting statistics that better measure lived economic experience [1,12,43].

Sequenced Actions for Government, Regulators, Firms and Households

Near-term actions should prioritize regulatory credibility and vulnerable household protection. Within approximately three months, the authorities could publish a consolidated capital-market integrity timetable, issue a plain-language fiscal risks statement, establish cross-agency coordination for major investment rules, and begin high-frequency monitoring of youth job quality. Bank Indonesia should communicate its exchange-rate framework clearly while maintaining appropriately flexible tools. The government should commission independent MBG cost-and-outcome audits and protect food-safety standards. These measures are more feasible than a promise to transform the entire labor market immediately. They also create information needed to prioritize medium-term reforms rather than commit further resources blindly [4,32].

Over a six- to eighteen-month horizon, a credible reform coalition should simplify overlapping business permissions, develop targeted labor-intensive supplier clusters, support export-market access, link apprenticeships with employer commitments, and redirect weakly performing subsidies toward evaluated productive support. Banks and agencies can coordinate on SME account quality, procurement records, and credit graduation, while OJK protects against related-party lending and misallocation.

Firms should not be expected to invest simply as a patriotic gesture: they require reasonable prospective demand and enforceable property and contract rights. Households can benefit from budgeting and skills adaptation, but private thrift cannot solve a macroeconomic deficiency in decent job creation. Social policy must therefore preserve a floor of economic security while the supply side of the economy improves [5,8,15,45].

Over a longer horizon, Indonesia should strengthen the capabilities of productive firms, reduce geographic opportunity gaps, and build institutional routines that survive changes in political leadership. Human-capital development needs sustained nutrition, schooling, and vocational quality, while tax, trade, and financial reforms should enable firms to compete with less discretion in market access. The role of the state should be defined by transparent market failures and measurable public purposes, not by the presumption that either state ownership or private activity is universally superior.

The comparative evidence on global value chains, governance, and credit allocation suggests that sustainable development depends on complementarities across institutions. If successful, these reforms would address both sides of the paradox: households would participate more securely in growth, while investors would see more credible and productive financing opportunities [4,13,14].

Alternative Interpretations and Research Agenda

Several alternative explanations deserve explicit attention. Demographic changes can alter socioeconomic-class counts even if some households experience real improvements. A sharp equity decline may reflect mechanical portfolio mandates or inflated earlier valuations rather than a rapid deterioration of corporate cash flows. Weak credit drawdowns may signal soft private demand rather than bank risk aversion. More generous public spending may support consumption in the short run while carrying fiscal costs later.

Environmental shocks and global geopolitical disruptions may also affect local outcomes substantially. Qualitative synthesis can expose these alternatives and arrange evidence consistently, but it cannot settle their quantitative importance. A balanced assessment should therefore avoid describing the present circumstances as either undeniable collapse or unqualified macroeconomic success [1,9,30].

Future studies can test these mechanisms using linked microdata and quasi-experimental designs. Household surveys could examine transitions between expenditure bands and differences in financial buffers across age, region, and work status. Employer and bank panel data could estimate why firms postpone credit utilization and how regulatory episodes affect capital expenditure.

Financial event studies could measure responses to the January, April, June, and October MSCI communications while controlling for external market moves. Procurement and staggered-delivery studies could estimate MBG's nutritional, educational, and local multiplier effects. Finally, regional comparisons of manufacturing and small-firm credit graduation could identify which policy combinations generate higher productivity and more secure jobs. Such work would convert the integrative propositions developed here into falsifiable estimates rather than ideological assertions [26,31,32,44].

Conclusion

Indonesia's economic challenge is best described as a multidimensional divergence rather than a verdict based on one indicator. Sustained aggregate growth has demonstrated macroeconomic capacity, yet a narrow employment ladder, middle-class vulnerability, weak productive credit transmission, and diminished market confidence can undermine the quality and durability of that growth.

The October 2026 equity-market disruption made the financial consequences of institutional trust unusually visible. Nevertheless, a large stock-market decline and a currency above IDR 18,000 per US dollar do not alone establish a sovereign or banking crisis. The main analytical lesson is that economic health requires simultaneous attention to the composition of output, the security of household livelihoods, and the credibility of rules governing capital allocation.

The review finds that domestic policy design is an important potential amplifier of financial and real-economy stress, but it is neither the only plausible driver nor a causal quantity that can be estimated from secondary narratives. Global rates, trade pressures, portfolio rebalancing, and sectoral demand remain relevant. Policy debates are most productive when they replace accusation and reassurance with testable mechanisms. Program expenditures should be assessed by outcomes and opportunity costs; bank liquidity by productive allocation; market reform by verified disclosure and enforcement; and job creation by earnings, security, and mobility. The distinction between an outlook revision and a sovereign rating downgrade, or between a proposed market reclassification and a completed one, is part of this discipline.

The highest priorities are independent capital-market transparency reform, coordinated and predictable economic regulation, rigorous evaluation of flagship spending, transparent fiscal risk reporting, and a labor-intensive productivity strategy. These actions require distinct but mutually supporting responsibilities across the executive, Ministry of Finance, Bank Indonesia, OJK, the stock exchange, commercial banks, employers, and education institutions. Households should have access to sensible financial protection and skill opportunities, but the burden of fixing weak formal job creation cannot be shifted onto individuals. Measurable targets and public reporting are more credible than broad assurances about future growth or declarations of inevitable crisis.

The broader implication is that the decisive economic indicator is not whether Indonesia can continue to report growth near five percent, but whether such growth enlarges a stable, productive middle class and is accompanied by institutions that investors and citizens can trust. Strengthening these foundations would make macroeconomic resilience more inclusive and financial resilience more durable. Conversely, leaving governance deficiencies, low-quality employment, and inefficient investment incentives unresolved could allow moderate external shocks to produce disproportionately large domestic effects. The future remains contingent on reform choices, observable implementation, and institutional accountability rather than predetermined by a single political or market event.

Contemporaneous Data Sources and Interpretation Notes

This review uses the 2025 GDP growth outcome, labor-force age brackets, middle-class estimates, and dated foreign-exchange observations as contextual statistics drawn from Statistics Indonesia (BPS, 2026) and Bank Indonesia (2026). The capital-market chronology is cross-checked against MSCI communications (MSCI, 2026) and dated market reports; the reported IDR 335 trillion feeding-program allocation is a budgetary figure, not evidence of identical realized spending (Ministry of Finance, 2026). Sovereign negative outlook announcements must be separated from investment-grade rating decisions (Moody's Ratings and Fitch Ratings, 2026). These contemporaneous primary sources validate the setting; the 53 journal articles provide the interpretive and theoretical evidence.

Primary Data and Contemporary Institutional Releases

Statistics Indonesia (BPS) (2026) Indonesia's 2025 annual GDP growth: 5.11%; 2025 labor statistics and youth unemployment rate denominators. Available at: https://www.bps.go.id/en

MSCI (2026) 'MSCI Launches a Consultation on a Proposal to Reclassify Indonesia from Emerging Market to Standalone Market Status', 15 October. Available at: Official MSCI announcement

Bank Indonesia (2026) JISDOR observation: IDR 18,069/USD on 23 October 2026. Available at: https://www.bi.go.id/en/statistik/informasi-kurs/jisdor/Default.aspx

Ministry of Finance, Republic of Indonesia (2026) 2026 budget and MBG allocation of approximately IDR 335 trillion. Available at: https://www.kemenkeu.go.id/

Moody's Ratings (2026) 'Moody's Ratings Changes Indonesia's Outlook to Negative from Stable, Affirms Baa2 Rating', 5 February. Available at: Official Moody's statement (PDF)

Fitch Ratings (2026) 'Fitch Revises Indonesia's Outlook to Negative; Affirms at BBB', 4 March. Available at: Official Fitch statement (PDF)

References

1. Hill, H. (2026). Learning about Development: Reflections on Six Decades of Indonesian Economic Development. Bulletin of Indonesian Economic Studies, 62(2), 181-214.
2. Wihardja, M.M., Ikhsan, M., Alatas, V. (2025). Times Are Changing: Can Indonesia Stay the Course. Bulletin of Indonesian Economic Studies, 61(2), 169-204.
3. Pangestu, M., Armstrong, S. (2025). Is This Time Different? Indonesia's Response to Uncertainty. Bulletin of Indonesian Economic Studies, 61(3), 297-332.
4. Gupta, K., Laksono, R., Siregar, R.N. (2026). Prabowonomics: Can Indonesia Really Grow at 8%. Bulletin of Indonesian Economic Studies, 62(1), 1-35.
5. Setiastuti, S.U., Effendi, Y., Huang, X. (2026). The Paradox of Stability: Banking Sector Resilience, Credit Allocation and MSME Finance in Indonesia. Bulletin of Indonesian Economic Studies, 62(2), 145-180.
6. Chernov, M., Creal, D., Hördahl, P. (2023). Sovereign Credit and Exchange Rate Risks: Evidence from Asia-Pacific Local Currency Bonds. Journal of International Economics, 140, 103692.
7. Anas, T., Hill, H., Narjoko, D., Putra, C.T. (2022). The Indonesian Economy in Turbulent Times. Bulletin of Indonesian Economic Studies, 58(3), 241-271.
8. Patunru, A.A. (2023). Trade Policy in Indonesia: Between Ambivalence, Pragmatism and Nationalism. Bulletin of Indonesian Economic Studies, 59(3), 311-340.
9. Pagliari, M.S., Hannan, S.A. (2024). The Volatility of Capital Flows in Emerging Markets: Measures and Determinants. Journal of International Money and Finance, 145, 103095.
10. Kong, Q., Li, R., Wang, Z., Peng, D. (2022). Economic Policy Uncertainty and Firm Investment Decisions: Dilemma or Opportunity. International Review of Financial Analysis, 83, 102301.
11. Banerjee, P., Dutta, S. (2022). The Effect of Political Risk on Investment Decisions. Economics Letters, 212, 110301.
12. Sen, K. (2024). Broken Ladders? Labour Market Inequality in Indonesia and India. Bulletin of Indonesian Economic Studies, 60(2), 161-191.
13. Misi Lopes, L.E., Packham, N., Walther, U. (2023). The Effect of Governance Quality on Future Economic Growth: An

Analysis and Comparison of Emerging Market and Developed Economies. SN Business & Economics, 3, 108.
14. Pahl, S., Timmer, M.P., Gouma, R., Woltjer, P.J. (2022). Jobs and Productivity Growth in Global Value Chains: New Evidence for Twenty-Five Low- and Middle-Income Countries. The World Bank Economic Review, 36(3), 670-686.
15. Temenggung, D., Saputro, A., Rinaldi, R., Pane, D. (2021). Managing Recovery and Seizing Reform Opportunities. Bulletin of Indonesian Economic Studies, 57(1), 1-28.
16. Putri, T.E., Darmawan, P., Heeks, R. (2023). What Is Fair? The Experience of Indonesian Gig Workers. Digital Geography and Society, 5, 100072.
17. Wulansari, A.D., Novianto, A., Keban, Y.T., Hernawan, A. (2024). Hiding Behind the Platform: The Myth of Flexibility for Gig Workers in Indonesia. South East Asia Research, 32(1), 22-40.
18. Prasetyo, E.H. (2024). Digital Platforms' Strategies in Indonesia: Navigating between Technology and Informal Economy. Technology in Society, 76, 102414.
19. Pratomo, D.S., Saputra, P.M.A., Natalia, C., Asrofi, D.A.N., Zenritami, S.L., Al Ayyubi, M.S., Arisetyawan, K. (2026). Determinants of Social Security Coverage among Gig Workers in Indonesia. Journal of Asian Public Policy, advance online publication, 1-14.
20. Kadir, R.D., Wahyudi, S.T., Maski, G., Sumantri, V.D.S. (2025). The Role of Financial Inclusion in Reducing Household Poverty: Insights from Eastern Indonesia. Cogent Economics & Finance, 13(1), 2588925.
21. Suryahadi, A., Al Izzati, R., Yumna, A. (2021). The Impact of Covid-19 and Social Protection Programs on Poverty in Indonesia. Bulletin of Indonesian Economic Studies, 57(3), 267-296.
22. Sparrow, R., Dartanto, T., Hartwig, R. (2020). Indonesia Under the New Normal: Challenges and the Way Ahead. Bulletin of Indonesian Economic Studies, 56(3), 269-299.
23. Valera, M.L.G., Lei, Z., Fong, J.H. (2025). Determinants of Financial Inclusion in Southeast Asia. Applied Economics, 57(20), 2533-2550.
24. Pritadrajati, D. (2023). Does Social Assistance Disincentivise Employment, Job Formality, and Mobility. Labour Economics, 84, 102398.
25. Azimli, A. (2022). The Impact of Policy, Political and Economic Uncertainty on Corporate Capital Investment in the Emerging Markets of Eastern Europe and Turkey. Economic Systems, 46(2), 100974.
26. Liu, T., Chen, X., Yang, S. (2022). Economic Policy Uncertainty and Enterprise Investment Decision: Evidence from China. Pacific-Basin Finance Journal, 75, 101859.
27. Sahani, R., Kumar, M. (2026). Does Economic Policy Uncertainty Matter for Corporate Investment? The Moderating Role of Political Connections and Bank-Firm Relationships. Journal of Policy Modeling, advance online publication, 107053.
28. Jardet, C., Jude, C., Chinn, M. (2023). Foreign Direct Investment under Uncertainty: Evidence from a Large Panel of Countries. Review of International Economics, 31(3), 854-885.
29. He, L., Huang, L., Fang, L. (2022). Institutional Conditions, Economic Policy Uncertainty and Foreign Institutional Investment in China. Emerging Markets Review, 50, 100823.
30. Kasahara, H., Sawada, Y., Suzuki, M. (2024). The Effect of Bank Recapitalization Policy on Credit Allocation, Investment, and Productivity: Evidence from a Banking Crisis in Japan. Journal of Banking & Finance, 158, 107047.
31. Braun, M., Marcet, F., Raddatz, C. (2024). The Good, the Bad, and the Not-So-Ugly of Credit Booms? Capital Allocation and Financial Constraints. Journal of Banking & Finance, 161, 107098.
32. Pramesthi, I.L., Wiradnyani, L.A.A., Anggraini, R., Februhartanty, J., Widaryat, W., et al. (2025). Evaluating the Impact of Indonesia's National School Feeding Program (ProGAS) on Children's Nutrition and Learning Environment: A Mixed-Methods Approach. Nutrients, 17(22), 3575.
33. Indrawati, S.M., Satriawan, E., Abdurohman. (2024). Indonesia's Fiscal Policy in the Aftermath of the Pandemic. Bulletin of Indonesian Economic Studies, 60(1), 1-33.
34. Locke, A., James, M., Jones, H., Davies, R., Williams, F., et al. (2025). Impacts of Global School Feeding Programmes on Children's Health and Wellbeing Outcomes: A Scoping Review. BMJ Open, 15(10), e093244.
35. Acevedo, R., Lorca-Susino, M., Mora, J.U. (2024). The Unfree, the Freer, and the Government: Economic Freedom and the Fiscal Multiplier. Journal of Government and Economics, 13, 100098.
36. Pennings, S. (2022). Locally Financed and Outside Financed Regional Fiscal Multipliers. Economics Letters, 213, 110389.
37. Zheng, H. (2023). Sovereign Debt Responses to the COVID-19 Pandemic. Journal of International Economics, 143, 103766.
38. Aguilera-Torres Aibai, A., Peng, Y., Shen, P., Xu, H. (2022). Can Local Policy Uncertainty Curtail Corporate Speculation on Financial Assets? International Review of Financial Analysis, 83, 102287.
39. David, A.C., Guajardo, J., Yepez, J.F. (2022). The Rewards of Fiscal Consolidations: Sovereign Spreads and Confidence Effects. Journal of International Money and Finance, 123, 102602.
40. Aizenman, J., Jinjarak, Y., Park, D., Zheng, H. (2021). Goodbye Original Sin, Hello Risk On-Off, Financial Fragility, and Crises. Journal of International Money and Finance, 117, 102442.
41. Liu, S., Ma, C., Shen, H. (2024). Sudden Stop with Local Currency Debt. Journal of International Economics, 148, 103888.
42. Kesse, K., Blenman, L.P. (2024). Political Risks, Excess and Carry Trade Returns in Global Markets. International Review of Financial Analysis, 91, 102906.
43. Braun, V., Clarke, V. (2021). One Size Fits All? What Counts as Quality Practice in (Reflexive) Thematic Analysis. Qualitative Research in Psychology, 18(3), 328-352.
44. Byrne, D. (2022). A Worked Example of Braun and Clarke's Approach to Reflexive Thematic Analysis. Quality & Quantity, 56, 1391-1412.
45. Merdikawati, N., Al Izzati, R. (2026). Minimum Wage Impacts on Wages and Employment Across Manufacturing Establishments of Different Sizes in Indonesia. Bulletin of Indonesian Economic Studies, 62(2), 245-273.
46. Widyastuti, U., Respati, D.K., Dewi, V.I., Somad, A.M. (2024). The Nexus of Digital Financial Inclusion, Digital Financial Literacy and Demographic Factors: Lesson from Indonesia. Cogent Business & Management, 11(1), 2322778.
47. Wen, H., Lee, C.C., Zhou, F. (2022). How Does Fiscal Policy Uncertainty Affect Corporate Innovation Investment? Evidence from China's New Energy Industry. Energy Economics, 105, 105767.
48. Kyaw, K. (2022). Effect of Policy Uncertainty on

Environmental Innovation. Journal of Cleaner Production, 363, 132645.
49. Halimatussadiah, A., Edwards, R., Moeis, F.R., Maulia, R.F. (2022). Agriculture, Development and Sustainability in the Covid-19 Era. Bulletin of Indonesian Economic Studies, 58(1), 1-30.
50. Lewis, B.D. (2023). Indonesia's New Fiscal Decentralisation Law: A Critical Assessment. Bulletin of Indonesian Economic Studies, 59(1), 1-28.
51. Park, K., Luong, L.K., Fang, Z. (2026). Stock and Sovereign Risks, and Stock, Bond and Currency Returns in Crises in an Emerging Market: An Integrated VARX Model. Journal of Multinational Financial Management, 100936.
52. Huang, Y.S., Wu, J., Guo, F. (2022). Venture Capital Staging under Economic Policy Uncertainty. International Review of Economics & Finance, 78, 572-596.

Copyright: ©2026 Loso Judijanto. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.